

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298**FILED**04/19/18  
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**Ratesetting**

## TO PARTIES OF RECORD IN APPLICATION 17-12-008

This is the proposed decision of Administrative Law Judge Bemesserfer. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's May 31, 2018, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ ANNE E. SIMON

Anne E. Simon

Chief Administrative Law Judge

AES:avs

Attachment

Decision **PROPOSED DECISION OF ALJ BEMESDERFER** (Mailed 4/19/18)**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of SOUTHERN CALIFORNIA EDISON COMPANY (U338E) to issue, sell, and deliver one or more series of Debt Securities and guarantee the obligations of others in respect of the issuance of Debt Securities, the total aggregate principal amount of such indebtedness and guarantees not to exceed \$2,955,000,000; to execute and deliver one or more indentures; to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property; to issue, sell and deliver in one or more series, an aggregate amount not to exceed \$365,000,000 par or stated value of Cumulative Preferred Stock - \$25 Par Value - \$100 Cumulative Preferred Stock - \$100 Par Value, Preference Stock or any combination thereof, and guarantee the obligations of others in respect of the issuance of that Preferred or Preference Stock.

Application 17-12-008

**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON  
COMPANY TO ISSUE DEBT AND PREFERRED EQUITY SECURITIES**

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**DECISION AUTHORIZING SOUTHERN CALIFORNIA EDISON  
COMPANY TO ISSUE DEBT AND PREFERRED EQUITY SECURITIES**

**Summary**

This decision grants SCE authority pursuant to California Public Utilities Code §§ 816-818, 821, 823(d), 830, and 851 to do the following:

1. Issue Debt Securities including Debt Securities secured by utility property and accounts receivable in an aggregate principal amount not to exceed \$2.955 billion.
2. Issue preferred equity securities in an aggregate principal amount not to exceed \$365 million.
3. Use debt enhancements, swaps, and hedges to lower the cost of the Debt Securities and reduce financial risks.
4. Guarantee the obligations of regulated affiliates and governmental entities that are incurred on behalf of SCE for the purposes authorized by this decision.
5. Renew and/or refund commercial paper and other floating or variable rate Debt Securities, so that the combined term of the obligations may exceed twelve months without further authorization from the Commission.
6. Arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities, and to modify such credit facilities.
7. Execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities, and to sell, lease, assign, mortgage, or otherwise dispose of or encumber, utility property in connection with the issuance or sale of Debt Securities.
8. Pledge or otherwise dispose of or encumber its accounts receivable in connection with the issuance and sale of Debt Securities.
9. Issue and sell and deliver Debt Securities by public offering or private placement.

10. Utilize in its discretion debt enhancements to improve the terms and conditions of Debt Securities.

SCE may use the proceeds from the Debt Securities and Preferred Equity Securities authorized by this decision to finance its capital expenditures, refinance its maturing long-term debt, and refinance its issued Preferred Equity Securities during the projected years.

These authorized uses will help SCE fulfill its obligation under California Public Utilities Code § 451 to “furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities...as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.” The cost of the debt securities and preferred equity securities will depend on market conditions when the securities are issued.

No later than 30 days from the effective date of this decision, SCE shall pay a fee of \$1.366 million pursuant to California Public Utilities Code §§ 1904(b) and 1904.1. The authority granted by this decision shall become effective upon SCE’s payment of the §§ 1904(b) and 1904.1 fees.

This decision denies SCE’s request for authority to use debt enhancements, swaps, and hedges in connection with the Preferred Equity Securities authorized by this decision for the reasons discussed in Section 3.3.2 of this decision.

## **1. Procedural Background**

Southern California Edison Company (SCE) is a public utility company subject to the Commission’s authority and jurisdiction. SCE filed Application (A.) 17-12-008 on December 6, 2017 and on December 8, 2017, notice of the application appeared in the Commission’s Daily Calendar. On December 14, 2017 Resolution ALJ 176-3410 preliminarily categorized A.17-12-008 as a ratesetting proceeding. The Commission determined that a

hearing was not necessary. There were no protests or responses to the application.

## **2. Summary of SCE's Request in A.17-12-008**

### **2.1. Requested Authorizations and Findings**

SCE requests that the Commission issue an order pursuant to Public Utilities Code §§ 816, 817, 818, 821, 830, and 851 authorizing SCE to do the following:

1. Issue, sell, and deliver one or more series of Debt Securities with an aggregate principal amount of up to \$2.955 billion. The specific types of Debt Securities are identified in Section 3.3 of this decision.
2. Renew and/or refund commercial paper and other floating- rate or variable-rate Debt Securities, so that the combined term of the obligations may exceed 12 months without further authorization from the Commission.
3. Arrange credit facilities for the purpose of issuing Debt Securities and to modify such credit facilities without further authorization from the Commission.
4. Execute and deliver an indenture or supplemental indenture in connection with the Debt Securities and to sell, lease, assign, mortgage, or otherwise encumber and dispose of utility property in connection with the Debt Securities.
5. Pledge, encumber, and dispose of its accounts receivable in connection with the issuance and sale of Debt Securities.
6. Issue, sell, and deliver Debt Securities by public offering or private placement.
7. Issue, sell, and deliver one or more series of Preferred Equity Securities with an aggregate principal amount of up to \$365 million. The specific types of Preferred Equity Securities are identified in Section 3.6 of this decision.

8. Guarantee the securities and obligations of governmental entities and SCE regulated affiliates (Affiliates), the proceeds of which are used for the benefit of SCE.
9. Use the proceeds from the Debt Securities and Preferred Equity Securities for the purposes specified in Section 3.2 of this decision.
10. Utilize the debt enhancements, swaps, and hedges described in Sections 3.4 and 3.5 of this decision.

SCE further requests that the Commission find, pursuant to California Public Utilities Code § 818, that the money, property, or labor to be procured or paid for with the proceeds from the Debt Securities and Preferred Equity Securities is reasonably required for the purposes so specified, and that, except as permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or income.

## **2.2. Use of Proceeds, Sources and Uses of Funds**

SCE requests authority to use the proceeds from the sale of the Debt Securities and Preferred Equity Securities for the following purposes: (i) Pay expenses incident to the issuance and sale of the securities; (ii) Acquire utility property; (iii) Construct, complete, extend, or improve utility facilities; (iv) Retire or refund securities previously issued for which SCE paid the fees levied by California Public Utilities Code § 1904; and (v) Reimburse SCE for money it has expended from its income, or from money in its treasury not secured by or obtained from the issuance of debt or equity, for any of the previous purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

SCE's request for authority to issue new debt and equity securities is based, in part, on SCE's forecasted sources and uses of funds. SCE's forecast

covers the years 2018-2020 and shows its future financing needs for the acquisition of property, construction or improvement of facilities, retirement/refunding of securities previously issued, reimbursement of its treasury and other unforeseen contingencies. SCE's forecasted sources and uses of funds years for 2018-2020 are as shown in Table 1 below.

**Table 1**  
**SCE's Sources and Uses of Fund for 2018-2020**  
**(\$ Millions)**

<b>Uses</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
Capital Expenditures	\$4,920	\$5,052	\$5,010	\$14,981
Maturing/Refinancing Long Term Debt	\$479	\$79	\$79	\$636
Total Uses	\$5,399	\$5,130	\$5,088	\$15,617
<b>Sources</b>				
Cash from Operations	\$2,749	\$3,805	\$3,404	\$10,017
Long Term Debt				
New Issuances	\$1,950	\$1,000	\$1,350	\$4,300
Refinancings	\$400			\$400
Preferred Equity	\$300	\$325	\$275	\$900
New Issues	----	----	----	----
Total Sources	\$5,399	\$5,130	\$5,088	\$15,617
Contingency Request				\$2,520 <sup>1</sup>

Based on Table 1, above, SCE has a forecasted net cash need of \$5.6 billion, which it must meet from external sources over the years 2018-2020. SCE intends to meet its net cash need of \$5.6 billion by refinancing \$400 million in existing long term debt and issuing \$4.3 billion in Debt Securities and \$900 million in Preferred Equity Securities, of which \$2.955 billion in new Debt Securities and \$365 million in new Preferred Equity Securities are to be authorized by this

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<sup>1</sup> SCE included a contingency cash forecast for the 2018-2020 period in its application Exhibit A: Authorization Request but did not include approval of such request in its prayer for relief.

decision. The requested financing authority is sufficient to enable SCE to meet its operational needs and fulfill its obligations to its customers for the 2018-2020 time period.

### **2.3. Types of Debt Securities**

SCE requests authority to issue one or more series of Debt Securities, with the type of Debt Security, principal amount, terms and conditions of each issuance to be determined by SCE based on market conditions at the time of sale and issuance. The requested Debt Securities may bear a fixed, floating or variable rate of interest; may be issued at par or with an original issue discount or premium; and may have maturities of up to 100 years. SCE requests authority to sell Debt Securities by public offering or private placement. If by public offering, the Debt Securities may be registered with the Securities and Exchange Commission and listed on a stock exchange. SCE also seeks authority to issue Debt Securities itself or through an affiliate that will, in turn, lend or otherwise transfer the proceeds to, or for the benefit of, SCE.

The specific types of Debt Securities for which SCE requests authority to issue are identified below.

#### **A. Secured Debt Securities**

Secured Debt Securities would generally be first and refunding mortgage bonds under SCE's first mortgage bond indenture dated as of October 1, 1923, as amended and supplemented. (Trust Indenture.) The supplemental indenture delivered in connection with each series of first and refunding mortgage bonds will be in a form consistent with supplemental indentures under which SCE's currently outstanding bonds have been issued. The bonds may be sold to underwriters who in turn will offer the bonds to investors, or may be sold directly to investors either with or without the assistance of a private placement agent. Bonds may also be delivered in

connection with a pollution control financing as described below. SCE may also issue, pledge or deliver bonds as a means of securing other authorized indebtedness, such as borrowing under a loan or credit agreement. Bonds may be registered with the Securities and Exchange Commission (SEC), depending on the method of offering and sale, and may be listed on a stock exchange. Secured Debt Securities may be issued under another indenture, and senior notes and debentures may be issued, as part of a “fall-away” mortgage bond structure where mortgage bonds are initially issued and later converted to unsecured notes and debentures. Because each new series of secured Debt Securities would be an additional encumbrance on utility property, SCE requests authority under Public Utilities Code § 851 to encumber its utility property.

**B. Accounts receivable financing**

SCE may issue Debt Securities secured by a pledge, sale, or assignment of SCE’s accounts receivable. Using accounts receivable as collateral may make it possible to obtain financing at interest rates lower than SCE’s short-term borrowing costs. Because accounts receivable financing would be an encumbrance on utility property, SCE requests authority under Public Utilities Code § 851 to encumber its utility property.

**C. Unsecured Senior Debt Securities**

SCE may issue unsecured senior Debt Securities in the form of debentures, notes, or other evidences of indebtedness. Unsecured Debt Securities would not be secured by specific properties of SCE but may be issued under trust indentures, including but limited to, a senior indenture dated as of January 15, 1993. Senior notes and indentures may be sold to underwriters who in turn will offer the Debt Securities to investors, or may be sold directly to investors, with or without the assistance of a placement agent. SCE may also issue senior notes and debentures or other unsecured senior Debt Securities as part of an issuance of trust preferred securities. In such an

issuance, SCE would create a subsidiary, usually in the form of a trust that would issue preferred securities to the public. The preferred securities would represent an interest in the senior notes and debentures issued by SCE to the trust, and would also be guaranteed by SCE. Senior notes and debentures may be registered with the SEC and may be listed on a stock exchange.

**D. Unsecured Subordinated Debt Securities**

SCE may issue unsecured subordinated Debt Securities as debentures, notes, or other evidence of indebtedness. Such subordinated notes and debentures would not be secured by specific properties of SCE, but may be issued under trust indentures. Subordinated notes and debentures would be junior to secured Debt Securities and unsecured senior Debt Securities in liquidation and right of payment. Subordinated notes and debentures may be sold to underwriters who in turn will offer the Debt Securities to investors, or may be sold directly to investors, either with or without the assistance of a placement agent. SCE may also issue notes and debentures or other unsecured subordinated Debt Securities as part of an issuance of trust preferred securities. In such an issuance, SCE would create a subsidiary, usually in the form of a trust that would issue preferred securities to the public. The preferred securities would represent an interest in the notes and debentures issued by SCE to the trust, and would also be guaranteed by SCE. Unsecured subordinated notes and debentures may be registered with the SEC and may be listed on a stock exchange.

**E. Hybrid Securities**

Hybrid Securities may be issued as subordinated debt directly to the public or structured as a trust preferred security, with SCE issuing subordinated debt to a subsidiary, generally in form of a trust, and the trust issuing preferred securities to the public. The hybrid securities would have a term of up to 100 years and would

have other features which improve the equity content of the securities, as determined by applicable rating agencies. The terms of hybrid securities may include, but will not be limited to: (i) restrictive redemption provisions, including but not limited to, capital replacement provisions; (ii) interest rates which may be fixed, floating, adjustable, or deferrable, or a combination of these; (iii) mandatory sinking funds; and (iv) such other provisions as SCE may deem appropriate in connection with its issuance and sale of hybrid securities. Hybrid securities have characteristics of both debt and equity, and therefore are given partial equity treatment by the rating agencies. Accordingly, SCE would treat hybrid securities as similar to preferred equity in its cost of capital proceedings and in determining compliance with its authorized capital structure.

**F. Overseas Indebtedness**

SCE or an affiliate may issue Debt Securities in the form of debentures, notes or other evidence of indebtedness that would be issued and sold ultimately to foreign investors and would likely be denominated in U.S. dollars. Such Debt Securities may be sold to underwriters who in turn may offer them to investors, or may be sold directly to investors, either with or without the assistance of a placement agent.

**G. Foreign Currency Denominated Securities**

SCE and/or an affiliate may issue debentures, notes or other Debt Securities with the payment of interest, principal, or both denominated in a foreign currency. Such foreign currency denominated securities may be sold to foreign or domestic investors and may be denominated in any major foreign currency including, but not limited to, British pounds, Australian, New Zealand, Hong Kong, Singapore, or Canadian dollars; Norwegian, Swedish or Danish krona; Japanese yen; Swiss francs; or European euros.

In conjunction with the issuance of foreign currency denominated securities, SCE and/or an affiliate may enter

into one or a series of forward contracts by which a counterparty would be obligated to pay the foreign currency necessary to make principal, premium, if any, and interest payments on the foreign currency denominated security. In exchange, SCE and/or an affiliate would pay a counterparty U. S. dollars, based on a predetermined formula. The forward contracts would be with a major financial intermediary, such as a commercial or investment bank, or directly with a principal in need of U. S. dollars. The cost of the forward contracts will be included in determining the overall cost of foreign currency denominated securities.

#### **H. Medium-Term Notes (MTNs)**

MTNs are debt instruments commonly offered as part of a program on a continuous or periodic basis, similar to commercial paper programs, but with maturities generally ranging from one to ten years. MTNs may be sold privately or publicly in the domestic or foreign capital markets and denominated in U.S. dollars or a foreign currency. SCE and/or an affiliate may sell MTNs to underwriters who in turn offer them to investors or SCE and/or an affiliate may sell MTNs directly to investors. If MTNs are sold through a placement agent, SCE or an affiliate would set the interest rate at which it would be willing to issue MTNs of various maturities. The interest rate could be updated continuously to reflect market conditions and SCE's need for funds.

#### **I. Direct Loans**

Direct loans are loans obtained directly from banks, insurance companies, or other financial institutions. To obtain such loans, SCE may enter into loan or credit agreements, including agreements on a revolving basis, and SCE may secure them by issuing mortgage bonds to the lenders.

#### **J. Commercial Paper**

SCE may issue Debt Securities as commercial paper that rolls over or re-funds previously issued commercial paper.

SCE anticipates that it or an affiliate (acting at SCE's direction) would arrange credit agreements with banks or other financial institutions to provide liquidity support for commercial paper. The cost of commercial paper would include the effective yield plus any expenses associated with issuing commercial paper such as, by way of example and not limitation, dealer fees, commissions, issuance expenses, rating fees, and credit facility fees.

**K. Other Floating or Variable-Rate Debt**

Other floating variable-rate debt would consist of all other forms of floating or variable-rate debt that SCE and/or an affiliate may issue. Interest rates may be based on various short-term interest rates indices or bankers' acceptances, and may vary based on changes in SCE's credit ratings or other factors.

**2.4. Debt Enhancement**

SCE requests authority to include at its discretion the following features in its Debt Securities to enhance the price, rates, terms, and/or conditions for the benefit of ratepayers.

**A. Credit Enhancements**

Credit enhancements may include letters of credit, standby bond purchase agreements, surety bonds, insurance policies, or other credit-support arrangements to reduce interest costs or improve other credit terms.

**B. Redemption Provisions/Call Options**

Redemption provisions and call options would allow Debt Securities to be redeemed or repaid prior to maturity at a stated price. These features would enable SCE, if market rates fall, to replace outstanding debt with lower-cost debt. In any case, the Debt Securities would be redeemable at a premium over par or at a stated price such as par.

**C. Put Options**

Put Options would provide the owner of a Debt Security with the right to sell the security to SCE or an affiliate at a specified price. Investors may be willing to accept a lower interest rate in exchange for a put option that protects the value of the owner's investment in Debt Securities.

**D. Sinking Funds**

Sinking funds would require SCE to periodically set aside funds to redeem, repurchase, or retire a specified amount of Debt Securities. SCE anticipates that the cost of Debt Securities may be reduced by sinking funds.

**E. Tax-exempt Debt Securities**

Tax-exempt Debt Securities would be issued through a governmental body, political subdivision, or other conduit issuer to finance facilities that qualify for tax-exempt financing under federal and/or state law. To obtain the low-cost benefits of tax-exempt financing, SCE may structure such financings as follows:

1. A governmental body would issue and sell its bonds, notes, debentures, or other securities to underwriters who would ultimately market such securities to investors.
2. Concurrent with the sale of such securities and in consideration for the proceeds from the securities, SCE would enter into a loan agreement or other security agreement with the issuer. Pollution control or other facilities may be conveyed to the issuer and then reconveyed to SCE in exchange for SCE Debt Securities. Control of the facilities would stay with SCE at all times. The obligations of SCE would be substantially consistent with the terms and conditions of the governmental issuer's securities, and SCE would guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, SCE may issue, pledge, or deliver bonds in an equal principal amount to the issuer or a trustee.

**F. Warrants**

Debt Securities may be sold with warrants attached. The owner of a Debt Security to which a warrant is attached has the right to purchase another debt security or a share of capital stock at a pre-established price. No additional underwriting fees are incurred upon exercise of the warrants. SCE posits that even if the warrants are exercised, ratepayers will realize savings because of the premium received from the sale of the Debt Securities with the warrants attached.

**2.5. Swaps and Hedges**

SCE seeks authority to enter into various financial instruments that hedge the risk associated with interest and dividend rate volatility. Such hedges include swaps, caps, floors, and collars.

Swaps may enable SCE to reduce its borrowing costs by issuing a fixed or floating-rate security and concurrently entering into interest rate swap contracts to convert fixed interest payments into favorable floating-rate payments or vice versa, or to convert floating-rate payments tied to one index into floating-rate payments tied to another index. Swaps can reduce financing costs if the resulting interest rate is lower than SCE could have obtained by issuing a comparable security directly.

To hedge the risk that interest rates for floating-rate securities may rise, SCE may negotiate a maximum “cap” rate. If floating rates rises above the cap rate, SCE would pay only the cap rate.

As partial consideration for the cap, the counterparty to the contract may desire a floor rate so that if the floating rate falls below the floor rate, SCE would pay the floor rate. Such floor and cap combinations are known as collars because the interest rate fluctuates within a negotiated band.

To hedge the risk of increased interest rates associated with planned issuances of fixed-rate securities, SCE may enter into contracts for interest rate locks, caps, collars, and forward-starting swaps.

Interest rate locks and caps would “lock in” or cap the forward interest rate of a specified Treasury or other security on which a fixed-rate SCE security will be priced at some future date. Collars “lock in” a range of forward rates of a specified Treasury or other security on which a fixed-rate SCE security will be priced at some future date.

To hedge the overall cost of a planned issuance, not just the underlying interest rate, SCE may enter into forward-starting swaps with an effective start date of weeks, months, or years in the future. These types of swaps fix the cost of borrowing today without having to start the transaction right away.

Finally, to hedge risks associated with securities denominated in a foreign currency, SCE may enter into currency swaps and swaps denominated in a foreign currency, including forward-starting swaps.

SCE may guarantee the swaps and hedges of affiliates. All swaps and hedges will comply with the requirements set forth in Decision (D.) 12-00-015, which are summarized later in this decision. SCE requests that swaps and hedges not be counted as separate debt for purposes of calculating its remaining financing authority under this decision.

## **2.6. Types of Preferred Equity Securities**

SCE requests authority to issue, sell, and deliver one or more series of Cumulative Preferred Stock - \$25 Par Value, Cumulative Preferred Stock-\$100 Par Value, and Preference Stock as authorized in SCE’s articles of incorporation (together, Preferred Equity Securities). SCE also seeks authority to

guarantee the securities or other obligations of regulated affiliates in connection with the issuance of Preferred Equity Securities.

The method of sale, terms, and conditions of each offering will be determined by SCE based on market conditions at that time. The price, dividend rate, voting rights, liquidation preferences, and other rights, preferences, privileges, and restrictions applicable to each series of Preferred Equity Securities will be fixed by resolution of SCE's board of directors or a committee thereof, and a certificate of preferences which includes the content of such resolution will be filed with the California Secretary of State. SCE anticipates that the Preferred Equity Securities may include (i) restrictive redemption provisions; (ii) dividend rates that may be fixed or variable; and (iii) mandatory sinking funds. SCE may issue Preferred Equity Securities via trust preferred securities. In such an issuance, SCE would create an affiliate in the form of a trust or other entity that would issue preferred securities to the public. The preferred securities would represent an interest in the Preferred Equity Securities issued by SCE to the trust and would be guaranteed by SCE. SCE may also issue Preferred Equity Securities via depositary shares to investors. Each depositary share would represent a fractional interest in one share of a Preferred Equity Security. The depositary shares would have identical terms as the underlying Preferred Equity Securities that are held by a custodian, typically a large bank.

Issuing depositary shares would allow SCE to utilize fewer of its authorized shares, thereby avoiding the costly process of amending its Articles of Incorporation to increase the number of authorized shares.

### **3. Discussion**

#### **3.1. Authority to Issue Debt and Preferred Equity Securities**

SCE's application for authority to issue \$2.955 billion of Debt Securities and \$365 million of Preferred Equity Securities is subject to Public Utilities Code §§ 816, 817, 818, 821, 839 and 851. Each of these sections is discussed below.

##### **3.1.1. Public Utilities Code § 816**

Section 816 provides the Commission broad discretion to (1) determine if a utility should be authorized to issue Debt Securities and Preferred Equity Securities; and (2) attach conditions to the issuance of securities in order to protect and promote the public interest. For the reasons set forth below, we find that it is reasonable to authorize SCE to issue \$2.955 billion of Debt Securities and \$365 million of Preferred Equity Securities pursuant to § 816.

##### **3.1.2. Public Utilities Code § 817**

Section 817 provides that a public utility may issue long-term debt and preferred equity only for the purposes specified in § 817. SCE requests authority to issue \$2.955 billion of Debt Securities and \$365 million of Preferred Equity Securities for the following purposes: (1) pay expenses incident to the issuance and sale of the securities; (2) acquire utility property; (3) construct, complete, extend, or improve utility facilities; (4) retire or refund securities previously issued; and (5) reimburse SCE for money it has expended from its income, and from funds in its treasury that are not secured by or obtained from the issuance of debt or equity, for any of the previous purposes except maintenance of service and replacements, with the amounts so reimbursed becoming part of SCE's general treasury funds.

We find that SCE's request to issue Debt Securities and Preferred Securities Equity Securities for the previously identified purposes is permitted by the following subsections of § 817:

- § 817(a) authorizes the issuance of long-term debt and preferred equity to acquire property. We consider capital expenditures, to the extent such expenditures are used to acquire property, to be within the ambit of § 817(a).
- § 817(b) authorizes the issuance of long-term debt and preferred equity to construct, complete, extend, or improve utility facilities. We consider capital expenditures to be squarely within the ambit of § 817(b).
- § 817(c) authorizes the issuance of long-term debt and preferred equity to maintain or improve service. We consider capital expenditures to be necessary for the maintenance and improvement of public utility services and, therefore, within the ambit of § 817(c).
- § 817(d) authorizes the issuance of long-term debt and preferred equity to discharge or lawfully refund a utility's obligations. We consider the issuance of the requested Debt Securities and Preferred Equity Securities to retire, refund, or refinance long-term debt and preferred equity during 2018 - 2020 to be within the ambit of § 817(d).
- § 817(g) authorizes the issuance of long-term debt and preferred equity to retire, or in exchange for, outstanding long-term debt and preferred equity. We consider the use of the requested Debt Securities and Preferred Equity Securities to refinance maturing long-term debt and outstanding preferred equity during 2018-2020 to be within the ambit of § 817(g).
- § 817(h) authorizes the issuance of long-term debt and preferred equity to reimburse a utility for money expended from its income, or from funds in the utility's treasury not secured by or obtained from the issuance of debt or equity, for any of the previous purposes except maintenance of service and replacements, but only in cases where the

utility has kept its accounts in a way that enables the Commission to ascertain the amount of money so expended and the purposes for which such expenditure was made. Here SCE requests authority to use the proceeds from the Debt Securities and the Preferred Equity Securities for the purposes authorized by § 817(h), with the money having come from SCE's income and/or from funds in SCE's treasury that were not secured by, or obtained from, the issuance of debt or equity.

We conclude that SCE's request herein to issue new Debt Securities and Preferred Equity Securities satisfies the requirement of § 817 and should be granted for up to \$3.320 billion.

### **3.1.3. Public Utilities Code § 818**

Section 818 provides that a public utility may not issue long-term debt and preferred equity unless it has first secured a Commission order authorizing the debt and preferred equity, stating the amount thereof, and the purposes to which the proceeds thereof are to be applied. Section 818 further requires the Commission to find that the money, property and/or labor to be procured with the proceeds from the long-term debt and preferred equity are reasonably required for the purposes specified in the order, and that such purposes are not reasonably chargeable to expenses or income.

In compliance with § 818, SCE filed the instant application A.17-12-008 seeking \$3.320 billion in new financing authority (\$2.955 billion of Debt Securities and \$365 million of Preferred Equity Securities) for the purpose of financing its capital expenditures for years 2018-2020, and refinancing certain issued debts and equity securities, as set forth in Table 1 above. SCE's application meets the requirements of § 818.

Further, SCE provided specific information about its proposed use of the proceeds from the authority requested. As contained in Exhibit B to A.17-12-008,

SCE's proposed capital expenditures budget for the year 2018-2020 is \$15.617 billion, and SCE intends to fund its capital expenditures with the proceeds from the financing authority requested herein, as reflected in Table 2, below.

**Table 2**  
**SCE's Capital Expenditures Forecast for 2018-2020**  
**(\$ in Millions)**

<b>Expense</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
<b>Distribution</b>	<b>\$3,955.00</b>	<b>\$4,058.00</b>	<b>\$3,984.00</b>	<b>\$11,998.00</b>
<b>Transmission</b>	<b>\$861.00</b>	<b>\$905.00</b>	<b>\$923.00</b>	<b>\$2,689.00</b>
<b>Generation</b>	<b>\$103.00</b>	<b>\$89.00</b>	<b>\$103.00</b>	<b>\$295.00</b>
<b>Total</b>	<b>\$4,920.00</b>	<b>\$5,052.00</b>	<b>\$5,010.00</b>	<b>\$15,617.00</b>

Looking at SCE's overall financial picture, SCE has a total cash need of \$15.617 billion for the years 2018-2020, as discussed in section 3.2 of this decision above (*see* Table 1). Of the \$ 15.617 billion total cash requirements, SCE would source internally \$10.017 billion from projected operating revenues for 2018-2020, leaving SCE with \$5.6 billion in additional cash requirements that it must meet from other sources.

A review of A.17-12-008 shows that SCE would be unable to adequately finance its electric utility operations and capital expenditures as needed to maintain its plants and improve its services, if the requested new financing authority is not granted for the \$3.320 billion needed by SCE to meet its cash shortfall.

Although SCE included a contingency authorization of \$2.520 billion in the table summarizing its Authorization Request (See Exhibit A to the application), it neither discussed the basis of that request in the text of the application nor

included authorization of that request in its prayer for relief. Accordingly, we deny the request to issue \$2.00 billion of Debt Securities and \$520 million of Preferred Equity Securities for potential contingencies.

The authority granted by this decision to encumber utility property does not include authority to dispose of encumbered property that is necessary or useful in the provision of utility service to the public. Thus, if a default occurs and title to any of SCE's plant, system, or property that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to the terms of a secured debt indenture, the plant, system, or property transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

#### **3.1.4. Public Utilities Code § 821**

Section 821 provides that a public utility may issue long-term Debt Securities that can be converted into shares of common stock subject to the other provisions of §§ 816-830. Consistent with § 821, this decision grants SCE's request for authority to issue Debt Securities that are convertible into common stock subject to the provisions of §§ 816-930 and the conditions specified in this decision.

#### **3.1.5. Public Utilities Code § 823(d)**

Section 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

We conclude that SCE's request to renew and/or refund commercial paper and other floating or variable-rate debt securities with the proposed Debt

Securities in this application, so that the combined term of the obligations may exceed twelve months without further authorization from the Commission will not be detrimental to SCE's utility operations or the public interest. SCE's request should be granted.

### **3.1.6. Public Utilities Code § 830**

Section 830 provides that a public utility shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise with respect to the debts of another person, firm, or corporation, without prior permission from the Commission. In A.17-12-008, SCE requests authority under § 830 to guarantee the securities, debt enhancements, swaps, hedges, and other obligations (Obligations) of regulated affiliates and governmental entities. This decision grants SCE's request subject to the following conditions:

- SCE shall only incur Obligations that are (i) directly related to the Debt Securities or Preferred Equity Securities authorized by this decision, and (ii) for the purposes authorized by this decision.
- The affiliate's or governmental entity's Obligations that are guaranteed by SCE shall have an equal or lower cost than SCE incurring the Obligation itself.
- SCE shareholders shall not profit, either directly or indirectly, for the Obligations that are guaranteed by SCE.
- The Commission and its staff shall have full and timely access to all of an affiliate's books, records, and other information that pertain to the Obligations that are guaranteed by SCE.

### **3.1.7. Public Utilities Code § 851**

SCE requests authority under § 851 to issue Debt Securities secured by utility property § 851 provides that a utility shall not sell, lease, assign, dispose,

or encumber (Encumber) any part of its plant, system, or other property necessary or useful in the performance of its duties to the public without prior approval from the Commission. The Commission has broad discretions under § 851 to authorize or deny an Encumbrance of utility property. The primary standard used by the Commission is whether the Encumbrance will adversely affect the public interest. When necessary the Commission may attach conditions to an encumbrance to protect and promote the public interest.

There is nothing in the record of this proceeding which indicates that granting SCE the requested authority under § 851 to issue Debt Securities secured by utility property will be detrimental to SCE's utility operations or the public interest. To the contrary, secured debt may cost less than unsecured debt, resulting in a lower cost of capital for ratepayers. Therefore, SCE's request is appropriate and is granted.

The authority granted by this decision to Encumber utility property does not include authority to dispose of Encumbered property that is necessary or useful in the provision of utility service to the public. Thus, if a default occurs and title to any of SCE's plant, system, or property that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to the terms of a secured debt indenture, the plant, system, or property transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

### **3.2. Types of Debt Securities and Preferred Equity Securities**

SCE seeks authority to issue (1) types of Debt Securities identified in Section 2.3 of this decision and Section III of A.17-12-008; and (2) types of Preferred Equity Securities identified in Section 2.6 of this decision and

Section VI of A.17-12-008. The Commission believes that public utilities should have reasonable latitude regarding the types of debt and preferred equity securities they may issue in order to obtain the lowest cost of capital for ratepayers. A utility's request to issue a specific type of security should be denied only if the requested type is unduly risky or for other good cause. This is not the case here, and therefore, the Commission will grant SCE's request to issue the types of Debt Securities and Preferred Equity Securities described in Sections 2.3 and 2.6 of this decision, respectively.

### **3.3. Debt Enhancements, Swaps, and Hedges**

#### **3.3.1. Debt Securities**

SCE requests authority to use the debt enhancements, swaps, and hedges identified in Sections 2.4 and 2.5 of this decision with respect to the Debt Securities authorized by this decision. In D.12-06-015, the Commission authorized utilities to use debt enhancements, swaps, and hedges for Debt Securities, subject to after-the-fact review by the Commission. The only requirement that a utility must satisfy in a financing application such as A.17-12-008 is to provide "a brief description and rationale for the potential use of a debt enhancement or the risk management properties associated with the potential use of a derivative instrument to hedge risk exposure." SCE provided the required information in A.17-12-008.

For ease of reference, SCE represents that the requested debt enhancements, swaps, and hedges will be used to improve the price, rates, terms, and/or conditions of the Debt Securities and to hedge financial risks associated with the Debt Securities for the benefit of ratepayers. The information provided by SCE meets the Commission's requirement, and we will authorize SCE to use the types of debt enhancements, swaps, and hedges requested with respect to the

Debt Securities, subject to the following conditions and restrictions set forth in D.12-06-015 for swaps and hedges:

1. SCE shall list in its GO 24-C reports to the Commission any interest income and expense from swaps and hedges during the period covered by the report.
2. Swaps and hedges shall not exceed 20% of a SCE's total long-term debt outstanding.
3. All costs associated with hedging transactions may be reviewed in regulatory proceedings addressing SCE's cost of capital.
4. Hedging transactions that carry potential counterparty risk must have counterparties with investment grade credit ratings.
5. If a swap or hedge is terminated before the original maturity, all termination-related costs may be reviewed in SCE's next regulatory proceeding addressing its cost of capital.
6. SCE shall provide the following to Commission staff within 30 days of receiving a written request: (i) all terms, conditions, and details of swap and hedge transactions; (ii) rationale(s) for the swap and hedge transactions; (iii) estimated costs for the "alternative" or unhedged transactions; and (iv) copy of the swap and hedge agreements and associated documentation.

The authority granted by this decision to use debt enhancements, swaps, and hedges is limited to the Debt Securities authorized by this decision.

### **3.3.2. Preferred Equity Securities**

SCE requests permission to use the swaps and hedges identified in Section 2.5 of this decision with respect to the Preferred Equity Securities authorized by this decision. Pursuant to D.12-06-015, debt enhancements, swaps, and hedges "shall only be used in connection with Debt Securities financings." Preferred Equity Securities are not considered to be "Debt Securities" within the

meaning of D.12-06-015. Accordingly, we deny SCE's request to use debt enhancements, swaps and hedges with respect to the Preferred Equity Securities authorized by this decision.

### **3.4. Other Regulatory Requirements**

#### **3.4.1. Financing Rule and GO 24-C**

The Financing Rule adopted by D.12-06-015 establishes the following regulations regarding the issuance of new Debt Securities:

- Public utilities must issue debt in a prudent manner, consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital.
- Public utilities must determine the financing terms of debt issues with due regard for (i) their full financial condition and requirements, and (ii) current and anticipated market conditions.
- Public utilities may choose whether to issue Debt Securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital.
- Public utilities with annual operating revenues of \$25 million or more must make every effort to encourage, assist, and recruit Women-, Minority-, and Disabled Veteran-Owned Business Enterprises in being appointed as lead underwriter, book runner, or co-manager of Debt Securities offerings.
- Public utilities may use debt enhancements, swaps, and hedges for Debt Securities, subject to certain restrictions and reporting requirements, including the restrictions on swaps and hedges in identified in Section 5.3 of this decision.

The Financing Rule applies to SCE and the Debt Securities, debt enhancements, swaps, and hedges authorized by this decision. To protect

ratepayer interests, we extend the requirements of the Financing Rule to the Preferred Equity Securities authorized by this decision.

GO 24-C requires public utilities that issue debt or equity to file a semiannual report with the Commission that includes the following information for the applicable semiannual period:

1. A description of the debt and equity issued during the semiannual period, if any, including the principal amount of each issuance, the commissions paid for each issuance, and the net proceeds received for each issuance.
2. The total amount of stock issued and outstanding at the end of the semiannual period, including the total number of shares issued and the par value, if any, of such shares.
3. The total bonds and other debt issued and outstanding at the end of the semiannual period, including the principal amount of such bonds and other debt.
4. The expenditures of debt and equity proceeds during the semiannual period and the purposes for which these expenditures were made. Expenditures must be reported in a way that allows the Commission to ascertain the utility's compliance with § 817 and the related authorizing decision.

In addition to the above-listed reporting requirements, GO 24-C requires utilities to maintain records that demonstrate that the proceeds from the issuance of debt and equity have been used in a manner authorized by § 817 and the related authorizing decision. Utilities must make the records available to Commission staff upon written request.

GO 24-C applies to SCE and the Debt Securities and Preferred Equity Securities authorized by this decision. However, because this decision does not authorize SCE to use debt enhancements, swaps, and hedges with respect to Preferred Equity Securities, the provisions in the Financing Rule concerning debt

enhancements, swaps and hedges are not applicable to the Preferred Equity Securities authorized by this decision.

**3.4.2. Ratemaking and Public  
Utilities Code §451**

Today's decision provides SCE with authority to issue \$2.955 billion of Debt Securities for authorized purposes including: (1) financing of capital expenditures; (2) refinancing of maturing long-term debt; and (3) reimbursement of SCE' treasury for money already expended for authorized purposes. Similarly, today's decision provides SCE with authority to issue \$365 million of Preferred Equity Securities for the purposes listed herein above.

This decision does not authorize or approve any specific capital expenditures, construction projects, or the recovery of any costs in rates. The all-in cost of the Deb Securities<sup>2</sup> and Preferred Equity Securities will be reviewed in SCE's cost of capital proceedings or other appropriate proceedings. The capital expenditures financed with the proceeds from the Debt Securities and the Preferred Equity Securities will be reviewed in general rate case proceedings, capital project-specific proceedings, or other appropriate proceedings. Based on these reviews, the Commission will determine whether the cost of the Debt Securities, Preferred Equity Securities, and related capital expenditures may be recovered in rates pursuant to § 451, which states as follows:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every

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<sup>2</sup> The all-in cost of the Debt Securities includes the debt enhancements, swaps and hedges authorized by this decision.

unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

Every public utility shall furnish and maintain such adequate, efficient just and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

### **3.4.3. Public Utilities Code §1904, Estimated Costs and Fees**

Sections 1904(b) and 1904.1 require utilities to pay a fee for authority to issue Debt and Equity Securities (§ 1904 Fee). The § 1904 Fee does not apply when the authorized debt or equity is used to retire or refund maturing securities for which the fee was paid previously.

SCE proposes to use the proceeds from the issuance and sale of the Debt Securities and Preferred equity authorized by this decision, other than for payment of accrued interest, if any, and after payment or discharge of obligations incurred for expenses incident their issue and sale: (1) for the acquisition of property; (2) for the construction, completion, extension or improvement of SCE's facilities; (3) for the retirement or the refunding of securities previously issued and upon which SCE paid the fees prescribed by §§ 1904(b) and 1904.1; and/or to reimburse SCE for money it has actually expended from income or from any other money in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, note, or other evidences of SCE's indebtedness, for any of the aforesaid purposes except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.

SCE expects to use \$2.355 billion of the requested Debt Securities authority and \$365 million of the Preferred Equity authority for construction expenditures

and acquisition of property, or to reimburse SCE for money it has expended for those purposes. Therefore, under §§ 1904(b) and 1904.1, the Commission will charge a fee on \$2.72 billion of the authorization granted (*see* calculation below). The remaining \$600 million of authorization requested for Debt Securities is expected to be used for the retirement or refunding of securities previously issued and upon which SCE previously paid a fee, and there will not be subject to a fee. If SCE intends to use any of the remaining authority it currently expects to use for the retirement or refunding of securities instead for construction expenditures and acquisition of property, SCE will notify the Commission and pay the corresponding fee before making such use.

Accordingly, the §§ 1904(b) and 1904.1 fee due on the authority granted by this decision is \$1,366,000, based on \$2,720,000,000 of the authority granted here as shown in the below calculation. SCE shall pay the \$1,366,000 no later than 30 days from the effective date of this decision pursuant to §§ 1904(b) and 1904.1, and the authority granted by this decision will become effective upon the payment of the fee.

**Table 3**  
**CPUC Fee Calculation**

\$2,955,000,000 increase in long-term debt authorization		
Less \$600,000,000 refunding (no fees)		
Equals \$2,355,000,000 new authorized debt		
\$365,000,000 increase in preferred equity authorization		
Less \$0 refunding (no fees)		
Equals \$365,000,000 new authorized preferred equity		
\$2,355,000,000 + \$365,000,000 = \$2,720,000,000 total new authorized securities (fee calculation below)		
Formula	Cost per \$1,000	Total Cost
First \$1 million new authorized securities	\$2.00	\$2,000 (A)
\$1 million to \$10 million	\$1.00	\$9,000 (B)
Over \$10 million	\$0.50	\$1,355,000 (C)
<b>Total Fees (A + B +C)</b>		<b>\$1,366,000</b>

#### 4. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that (1) may cause a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment, and (2) require discretionary approval from a governmental agency, unless exempted by statute or regulation. A project is exempt from CEQA when it can be seen with certainty that the activity in question will not have a significant effect on the environment. The Commission is the lead agency under CEQA with respect to A.17-12-008 and, therefore, must determine if the Debt Securities and Preferred Equity Securities requested in A.17-12-008 are exempt from CEQA.

Today's decision does not authorize any capital expenditures, construction projects, or any other activities that might have an effect on the environment. Therefore, it can be seen with certainty that the Debt Securities and Preferred Equity Securities authorized by this decision will not have a significant effect on

the environment. Accordingly, the authorized Debt Securities and Preferred Equity Securities are exempt from CEQA. To ensure compliance with CEQA, SCE shall not use the proceeds from the authorized Debt Securities and Preferred Equity Securities to fund any project until the required CEQA review and approval for the project, if any, has been completed.

## **5. Categorization and Need for Hearing**

In Resolution ALJ 176-3410, dated December 14, 2017 the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that a hearing is not necessary. On February 9, 2018, a prehearing conference was held at which no party other than the applicant appeared. On February 12, 2018, the assigned Commissioner issued a Scoping Memo setting out the issues for decision and the proposed timetable. No protests or responses were filed to A.17-12-008 and no factual issues have been raised in this proceeding that would have necessitated a hearing. Accordingly, the categorization of this proceeding as ratesetting and the preliminary determination that a hearing is not necessary are affirmed.

## **6. Comments on Proposed Decision**

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on \_\_\_\_\_, and reply comments were filed on \_\_\_\_\_.

## **7. Assignment of Proceeding**

Carla J. Peterman is the assigned Commissioner. Karl J Bemesderfer is the assigned ALJ in this proceeding.

**Findings of Fact**

1. In Resolution ALJ 176-3410, dated December 14, 2017, the Commission preliminarily determined that a hearing is not necessary in this proceeding.
2. There are no contested factual issues in this proceeding.
3. In A.17-12-008, SCE requests authority pursuant to §§ 816-818, 821, 823(d), 830, and 851 to issue \$2.955 billion of Debt Securities and \$365 million of Preferred Equity Securities for authorized purposes including: (i) payment of accrued interest and other expenses incident to the issuance of the requested securities; (ii) partial financing of its \$14.981 billion of capital expenditures budget from 2018-2020; (iii) refinancing of \$636 million of maturing long-term debt during 2018-2020; (iv) contingency provision in the amount of \$2.520 billion; and (v) reimbursement of SCE for money it has expended from its income, or from funds in its treasury that were not secured or obtained from the issuance of debt and equity, and for other purposes previously listed herein except maintenance of service and replacements. The amounts so reimbursed will become a part of SCE's general treasury funds.
4. SCE has a reasonable need for additional authority to issue \$2.955 billion of Debt Securities to (i) partially finance its \$14.981 billion in capital expenditures budget for years 2018-2020; (ii) refinance \$636 million of maturing long-term debt; (iii) finance \$4.300 billion in new long-term debt; (iv) pay accrued interest and other expenses incident to the issuance and sale of Debt Securities; and (v) reimburse itself for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt and equity, and for other purposes previously listed herein except maintenance of service and replacements, with the amounts so reimbursed becoming part of SCE's general treasury funds.

5. SCE has a reasonable need for additional authority to issue \$365 million of Preferred Equity Securities to: (i) partially finance its \$14.981 billion in capital expenditures budget for years 2018-2020; (ii) finance \$900 million in new Preferred Equity Securities; (iii) pay expenses incident to the issuance and sale of Preferred Equity Securities; and (iv) reimburse itself for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt and equity, and for other purposes previously listed herein except maintenance of service and replacements, with the amounts so reimbursed becoming part of SCE's general treasury funds.

6. SCE failed to establish that it has a reasonable need for authority to issue \$2.000 billion of Debt Securities and \$520 million of Preferred Equity Securities to address contingencies that may or may not arise in the future.

7. In A.17-12-008, SCE requests authority to issue (i) the types of Debt Securities identified in Section 2.3 of this decision, and (ii) the types Preferred Equity Securities identified in Section 2.6 of this decision. The types of securities proposed will provide SCE with the flexibility to issue Debt Securities and Preferred Equity Securities at the lowest cost to ratepayers. No good cause exists to prohibit SCE from issuing the proposed types of securities.

8. In A.17-12-008, SCE requests authority under § 851 to issue Debt Securities secured by utility property. Granting the request will not adversely affect the public interest or SCE's ability to meet its operational responsibilities.

9. In A.17-12-008, SCE seeks authority to use (i) the debt enhancements described in Section 2.4 of this decision; and (ii) the swaps and hedges described in Section 2.5 of this decision with respect to the requested Debt Securities. The purpose of the debt enhancements, swaps, and hedges is to improve the price, rates, terms and/or conditions of the Debt Securities for the benefit of ratepayers,

and to hedge financial risks associated with the Debt Securities for the benefit of ratepayers.

10. In A.17-12-008, SCE seeks authority to use swaps and hedges as discussed in Section 2.5 of this decision with respect to the requested Preferred Equity Securities.

11. The Debt Securities and Preferred Equity Securities authorized by this decision will not have a significant effect on the environment.

12. SCE must pay a fee of \$1.366 million on \$2.720 billion of the \$3.320 billion new financing authority granted to it by this decision that SCE intends to use to fund construction expenditures, acquisition of property, and/or reimbursement of SCE for money it has expended for those purposes, pursuant to §§ 1904(b), and 1904.1. SCE is not required to pay a fee on the remaining \$600 million that it intends to use to retire/refund securities previously authorized and issued, for which SCE had previously paid a fee.

### **Conclusions of Law**

1. Pursuant to §§ 816-818, SCE should be authorized to issue up to \$2.955 billion of Debt Securities. Pursuant to §§ 816-818, the authorized Debt Securities should be used only for the purposes identified in Findings of Fact 4 of this decision.

2. Pursuant to §§ 816-818, SCE should be authorized to issue up to \$365 million of Preferred Equity Securities. Pursuant to §§ 816-818, the authorized Preferred Equity Securities should be used only for the purposes identified in Finding of Fact 5 of this decision.

3. The \$2.955 billion of Debt Securities and \$365 million of Preferred Equity Securities authorized by this decision are for purposes allowed by § 817 and, as

required by § 818, such purposes are not reasonably chargeable, in whole or in part, to operating expenses or income.

4. Pursuant to §§ 816-818, and Finding of Fact 6, SCE failed to establish a need for the contingency authority requested, and its request for \$2.520 billion contingency authority should be denied.

5. Pursuant to § 816, SCE should be authorized to issue the types of Debt Securities and Preferred Equity Securities identified in Sections 2.3 and 2.6 of this decision.

6. Pursuant to § 821, SCE should be authorized to issue Debt Securities that are convertible into common stock using the debt enhancement features described in Section 2.4 of this decision.

7. Pursuant to § 823(d), SCE should be authorized to renew and/or refund commercial paper and other floating or variable-rate debt securities with the Debt Securities requested in the application, so that the combined term of the obligations may exceed 12 months without further authorization from the Commission.

8. Pursuant to § 830, SCE should be authorized to guarantee the obligations of regulated affiliates and government entities, subject to the conditions specified in Section 3.1.6 of this decision.

9. Pursuant to § 851, SCE should be authorized to encumber utility assets using the secured Debt Securities identified in Section 2.3 of this decision.

10. Consistent with § 851, if a default occurs and title to any SCE property, franchise, permit, or right that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to terms of the encumbrance, the property, franchise, permit, or right transferred should be used to provide utility service to the public until the Commission authorizes otherwise.

11. SCE has satisfied the requirements of D.12-06-015 for authority to use the debt enhancements, swaps, and hedges identified in Section 2.4 and 2.5 of this decision with respect to the requested Debt Securities. SCE should be authorized pursuant to §§ 816-818 to use these debt enhancements, swaps, and hedges with respect to the Debt Securities authorized by this decision.

12. SCE's request in A.17-12-008 for authority to use swaps and hedges with respect to Preferred Equity Securities should be denied. The Financing Rule adopted by D.12-06-015 restricted the use of swaps and hedges to Debt Securities, and the Preferred Equity Securities authorized by this decision are not Debt Securities for Commission regulatory purposes.

13. The Financing Rule and GO 24-C apply to SCE and the Debt Securities, Preferred Equity Securities, debt enhancements, swaps, and hedges authorized by this decision.

14. Pursuant to § 816, SCE should be authorized to issue Debt Securities and Preferred Equity Securities subject to the condition that SCE maintains its Commission-authorized capital structure.

15. The authority granted by this decision to issue Debt Securities and Preferred Equity Securities is separate from the authority to (i) recover the cost of the securities in rates; (ii) purchase or construct specific utility plant with the proceeds from the securities; and (iii) recover the cost of utility plant in rates.

16. The Commission may determine in future proceedings whether the all-in costs of the Debt Securities and Preferred Equity Securities issued pursuant to this decision are just and reasonable, and recoverable in rates; and whether the capital expenditures funded with the proceeds from the Debt Securities and Preferred Equity Securities are reasonable and recoverable in rates.

17. SCE is required by §§ 1904(b) and 1904.1 to pay a fee of \$1.366 million as set forth in Section 3.4.3 of this decision. The authority granted by this decision should not become effective until SCE has paid the fee.

18. The Debt Securities and Preferred Equity Securities authorized by this decision are exempt from CEQA.

19. SCE should not use the Debt Securities and Preferred Equity Securities authorized by this decision to finance a project until SCE has obtained any required environmental review and approval for the project under CEQA.

20. There are no factual issues in this proceeding that require an evidentiary hearing. The preliminary determination in Resolution ALJ 176-3410 that a hearing is not needed should be affirmed.

21. In order for SCE to issue the Debt Securities and Preferred Equity Securities authorized by the order without delay, the following order should be effective immediately upon SCE's payment of its §§ 1904(b) and 1904.1 fee of \$1.366 million.

## **O R D E R**

### **IT IS ORDERED** that:

1. Southern California Edison Company (SCE) is authorized pursuant to Public Utilities Code Sections 816-818, 821, 823(d), 830, and 851 to do the following:

- a. Issue, sell, and deliver one or more series of Debt Securities with an aggregate principal amount not to exceed \$2.955 billion.
- b. Use the proceeds from the Debt Securities to: (i) partially finance \$14.981 billion of its capital expenditures budget; (ii) refinance \$636 million of maturing long-term debt; (iii) finance \$4.300 billion in new long-term debt; (iv) pay accrued interest and other expenses incident to the

- issuance and sale of the Debt Securities; and (v) reimburse SCE for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt or equity, and for purposes previously listed except maintenance of service and replacements. The amounts so reimbursed shall become a part of SCE's general treasury funds.
- c. Issue one or more series of Preferred Equity Securities with an aggregate principal amount not to exceed \$365 million.
  - d. Use the proceeds from the Preferred Equity Securities to:
    - (i) finance its capital expenditures; (ii) finance \$900 million in new Preferred Equity Securities; (iii) pay expenses incident to the issuance and sale of the Preferred Equity Securities; and (iv) reimburse SCE for money it has expended from its income, or from funds in its treasury that were not secured by or obtained from the issuance of debt and equity, and for purposes previously listed except maintenance of service and replacements. The amounts so reimbursed shall become a part of SCE's general treasury funds.
  - e. Guarantee the securities, debt enhancements, swaps, hedges and other obligations of SCE regulated affiliates and government entities, subject to the following conditions: (i) The obligations that are guaranteed by SCE must be directly related to the Debt Securities and Preferred Equity Securities authorized by this Order and must be used only for the purposes authorized by this Order; (ii) The obligations that are guaranteed by SCE must result in an equal or lower cost of money for SCE's customers compared to SCE incurring the obligations itself; (iii) SCE shareholders must not profit, either directly or indirectly, from the obligations guaranteed by SCE; and (iv) The Commission and its staff shall have full and timely access to all affiliate books, records, and other information pertaining to the obligations that are guaranteed by SCE.
  - f. Issue, sell, and deliver one or more series of the following types of Debt Securities: mortgage bonds, Debt Securities

- secured by a pledge of SCE's accounts receivable, debentures, notes, unsecured senior Debt Securities, subordinated Debt Securities, hybrid securities, overseas indebtedness, foreign currency denominated securities, medium-term notes, preferred securities, commercial paper, other floating or variable-rate debt, credit or loan agreements, and other evidences of indebtedness. The principal amount, terms, and conditions of each issue of Debt Securities may be determined by SCE's management and/or board of directors based on market conditions at the time of issuance.
- g. Renew and/or refund commercial paper and other floating or variable-rate Debt Securities, so that the combined term of the obligations may exceed 12 months without further authorization from the Commission.
  - h. Arrange credit facilities for the purpose of issuing the Debt Securities authorized by this Order, and to modify such credit facilities without further authorization from the Commission, provided that such modifications comply with this Order.
  - i. Execute and deliver an indenture or supplemental indenture in connection with the Debt Securities, and to sell, lease, assign, mortgage, or otherwise encumber utility property in connection with the issuance and sale of the Debt Securities authorized by this Order.
  - j. Pledge or otherwise encumber accounts receivable in connection with the issuance and sale of Debt Securities.
  - k. Issue, sell, and deliver Debt Securities by public offering or private placement.
  - l. Issue, sell, and deliver, as authorized in SCE's articles of incorporation, one or more series of Cumulative Preferred Stock-\$25 Par Value, Cumulative Preferred Stock-\$100 Par Value, Preference Stock and depositary shares with respect thereto.
  - m. Use debt enhancements with respect to the Debt Securities authorized by this Order as identified in Section 2.4 of this

Decision including: Standby bond purchase agreements, surety bonds, insurance policies, and other credit-support arrangements; redemption provisions and call options that allow Debt Securities to be redeemed or repaid prior to maturity; put options that provide the owner of a Debt Security with the right to sell the security to SCE or an affiliate under specified terms and conditions; sinking funds; and warrants that entitle the holder to purchase another Debt Security or share of capital stock, provided that debt or equity issued pursuant to warrants comply with this Order.

- n. Issue, sell, and deliver the Debt Securities and Preferred Equity Securities authorized by this Order at any time or times, not to exceed the aggregate principal amounts authorized by this Order.
- o. Use the following financial instruments to reduce financial risks associated with the Debt Securities authorized by this Order: Interest rate caps, floors, collars, swaps, and forward-starting contracts; Treasury locks and caps; and foreign currency swaps and forward-starting currency swaps. Such financial instruments shall not be considered as separate debt for the purpose of determining the aggregate principal amount of Debt Securities issued pursuant to this Order.

2. If a default occurs and title to any of Southern California Edison Company's (SCE's) assets, property, franchise, permit, or right that is necessary or useful in the performance of SCE's duties to the public is transferred pursuant to the terms of a secured debt indenture, pledge, or other encumbrance, the assets, property, franchise, permit, or right transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

3. Southern California Edison Company and the Debt Securities, Preferred Equity Securities, debt enhancements, swaps, and hedges authorized by this

Order are subject to (a) the Financing Rule adopted by Decision (D.) 12-06-015, as corrected in D.12-07-003; (b) General Order 24-C; and (c) the capital structure and associated capital ratios adopted by the Commission.

4. This decision does not authorize or approve any capital projects, construction expenditures, rate base, capital structure, or cost of money.

5. Southern California Edison Company may not use the proceeds from the Debt Securities and Preferred Equity Securities authorized by this decision to finance a project until it has obtained any required review and approval of the project under the California Environmental Quality Act.

6. The preliminary determination in Resolution ALJ 176-346 that a hearing is not needed is affirmed.

7. Within 30 days from the effective date of this Order, Southern California Edison Company shall remit a check for \$1,366,000 pursuant to Public Utilities Code Section 1904 to the Commission's Fiscal Office, Room 3000, 505 Van Ness Avenue, San Francisco, CA 94102. The decision number of this Decision/Order must appear on the face of the check. The authority granted by this Decision shall become effective when the fee required by Section 1904 has been paid.

8. Application (A.) 17-12-008 is granted to the extent set forth in the previous Ordering Paragraphs. A.17-12-008 is denied to the extent it requests \$780 million in contingency financing authority to issue \$520 million of Debt Securities and \$260 million of Preferred Equity Securities.

9. Application 17-12-008 is denied to the extent it requests authority to use the swaps and hedges authorized by this decision in connection with the Preferred Equity Securities authorized by this decision.

10. Application 17-12-008 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.